

Summary

April 2024 General Fund revenues totaled \$1.58 billion, which is an increase of 1.6% above April 2023. April collections were \$(9) million below the JLBC January Baseline revenue forecast. In terms of the revised April forecast, April 2024 collections were \$(93) million below the April FAC revenue forecast. The remainder of this report references the January Baseline forecast in terms of individual revenue category gains or losses.

Individual Income Tax

Overall Individual Income Tax (IIT) collections during April were \$9 million above the January Baseline revenue forecast. This modest forecast gain, however, is the result of significantly different performance across the subcomponents of IIT:

- Withholding tax collections grew by 28% and were \$72 million above forecast. This growth was well above recent trends of wage/salary growth, and is attributable to there being additional tax processing days during April 2024 compared to April 2023.
- The dollar value of tax refunds issued in April was higher than expected causing a \$(78) million forecast loss. This April loss may have been a function of faster than expected tax return processing from DOR.
- Income tax payments (both estimated and final) were \$15 million higher than expected. Payments had been expected to decline given the state's implementation of the 2.5% single tax rate in Tax Year 2023, however, April payments declined by less than expected.

Sales Tax

April Sales Tax revenue (which represent March sales activity) declined by (0.1)% below April 2023. This resulted in a forecast loss of \$(12) million during the month.

While the Sales Tax category has seen slower growth since January, the negative growth for the month was surprising – overall Sales Tax collections have only seen one other month of outright decline since the shutdown in business activity during the COVID pandemic in Spring 2020.

The retail subcategory continues to see minimal growth while the contracting subcategory continues to be the strongest growth factor for the tax category. Restaurant and Bar collections grew by 5.0% during April, reversing a recent trend of slow growth for that subcategory.

Corporate Income Tax

April Corporate Income Tax (CIT) collections decreased by (8.8)% compared to April 2023. Because the January Baseline forecast assumed FY 2024 declines in CIT revenue, this decline was less than expected and still generated a forecast gain of \$3 million during April.

Insurance Premium Tax

Insurance Premium Tax (IPT) collections declined by (10.8)% during April and posted a forecast loss of \$(10) million during the month. This forecast loss is likely the result of timing issues within the category – IPT revenue can vary significantly between the months of March and April depending on the timing of deposits into the General Fund.

Year-to-Date Results

Year-to-date through April, excluding Urban Revenue Sharing and the one-time tax rebate, FY 2024 General Fund revenues are (2.3)% below the prior year. With the April results, after 4 months of tracking against the JLBC January Baseline forecast, the state has generated a cumulative forecast gain of \$120 million.

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April Revenues

Table 1			
General Fund Revenues (\$ in Millions)			
	FY 2024	Difference From	Difference
	Collections	Baseline Forecast	From FY 2023
April	\$ 1,584.7	\$ (8.7)	\$ 25.4
Year-to-Date	\$ 11,748.8	\$ 119.5	\$ (1,037.8)

Sales Tax collections of \$697.6 million were (0.1)% below April of last year and \$(12.0) million below the Baseline forecast. While sales tax revenue has been trending down for most of the fiscal year, April was the first month in FY 2024 with an outright year-over year decline in collections. Year to date, sales tax revenue is up by 3.0% and is \$5.7 million above forecast.

Table 2 shows the April growth rate for the 5 major sales tax categories, which together make up approximately 90% of total sales tax collections.

Table 2		
Sales Tax Growth Rates Compared to Prior Year		
	April	YTD
Retail/Remote Seller ^{1/}	0.9%	3.4%
Contracting	5.3%	13.8%
Use Tax ^{2/}	(3.5)%	(28.6)%
Restaurant & Bar	5.0%	3.0%
Utilities ^{3/}	(8.4)%	22.9%

^{1/} Absent DOR's technical corrections in August and October of 2023, Retail/Remote Seller YTD growth would have been 2.2%.
^{2/} Absent DOR's technical corrections in August and October of 2023, Use Tax YTD growth would have been (12.4)%.
^{3/} Absent a large taxpayer refund of \$40 million issued in October 2022 (which artificially lowered the FY 2023 revenue base), Utilities YTD growth would have been 11.5%.

The combined Retail/Remote Seller category increased year-over-year by 0.9% in April, the weakest performance since November of last year. Retail sales excluding remote sellers (referred to as "standard" retail sales) declined by (0.8)% in April. (Standard retail sales make up 90% of the combined Retail/Remote Seller category.)

Sales tax collections from contracting activities increased by 5.3% in April over the same month in the prior year. Growth in this category has slowed notably over the last 3 months.

Individual Income Tax (IIT) net revenue was \$546.5 million in April, which was \$8.7 million above the Baseline forecast. This forecast gain was the result of withholding and payments revenues exceeding expectations, offsetting a forecast loss stemming from a high level of refunds. Year to date (YTD) through April, IIT collections have decreased by (12.4)% compared to the same period in FY 2023 but are \$76.6 million greater than the Baseline forecast.

April withholding revenue was \$502.0 million, a 28.3% increase over the previous April and \$72.3 million greater than the Baseline forecast. This strong growth is mainly attributable to two additional processing days this month compared to April 2023, including an extra Monday, which is the most important day of the week for processing withholding revenue. According to the most recent data from the Bureau of Economic Analysis (BEA), wage and salary disbursements have also been increasing both nationally and in Arizona. Combining underlying wage and salary growth with the extra processing days yielded the high withholding growth rate of 28.3% in April. YTD, withholding has declined by (6.5)% compared to the same period in FY 2023 but is \$45.2 million above the forecast.

Payment revenue in April was \$594.7 million, a decrease of (10.8)% from last year but exceeding the Baseline forecast by \$14.7 million. April is often the most important month for individual income tax payments since the tax filing due date falls on April 15. The significant year-over-year decline is due to several factors. First, the individual income tax rates were reduced and consolidated from 2.55%/2.98% in 2022 into a single 2.5% rate, beginning in Tax Year 2023. Second, 2023 tax return data filed during the first 2 months of 2024 suggests that income from capital gains in 2023 may have declined significantly from its 2022 level.

As shown in Table 3, total payments YTD are \$1.31 billion, (25.8)% less than last year's level for the comparable period and \$(37.3) million below the Baseline forecast.



In April, \$550.1 million of refunds were issued, the second largest amount ever issued for the month of April. However, this amount did represent a decrease of (3.7)% from the record-setting level of refunds in April 2023. The level of refunds issued in April was higher than the \$471.8 million level assumed by the Baseline forecast, resulting in a forecast loss of \$(78.3) million.

The reason for the much higher-than-anticipated refund level in April appears to be related to the processing of tax returns. According to weekly processing data from the Department of Revenue (DOR), the number of refunds issued in April was over 30% greater than for the same month in the prior year. As a result, refunds that would have typically been issued in the early part of May appear to have instead been issued in the latter part of April. YTD through April, refunds are (10.1)% lower than the same period last year, for a forecast gain of \$68.7 million. April is an important month for refunds as it on average makes up approximately 24% of the total amount of refunds in a fiscal year.

	<u>April</u>	<u>YTD</u>
Withholding	28.3%	(6.5)%
Estimated/Final Payments	(10.8)%	(25.8)%
Refunds	(3.7)%	(10.1)%

Corporate Income Tax (CIT) net collections in April were \$311.9 million, a decline of (8.8)% from the previous April but \$2.8 million greater than the Baseline forecast. April is an important month for CIT, with collections on average making up about 18% of the fiscal year total. Through April, net CIT revenue YTD has decreased (7.4)% but is \$17.6 million above the Baseline forecast.

Insurance Premium Tax (IPT) revenue was \$50.4 million in April, a decline of (10.8)% compared to the same month in the prior year and \$(10.1) million below the Baseline forecast. April's year-over-year decline in collections follows March's large increase of 14.1%. IPT revenue can vary in the months of March and April depending on the timing of deposits into the General Fund. Fiscal year to date, IPT revenue is up by 9.4% and is \$34.4 million above forecast.

The amount of **Tobacco Tax** deposited into the General Fund in April was \$1.7 million, which is (6.4)% below April 2023 collections and \$(0.1) million below the Baseline forecast. Year to date, General Fund tobacco tax revenues total \$16.1 million, which is 2.3% above the comparable period in FY 2023 and \$(0.1) million below forecast.

Liquor Tax revenue deposited into the General Fund in April was \$2.4 million, which marks a 75.5% increase over April 2023's abnormally low deposits and is \$(0.7) million below the Baseline forecast. Year to date, General Fund deposits from liquor tax collections total \$35.4 million, which is a (0.4)% decline from the comparable period in FY 2023 and \$(1.7) million below forecast.

The **Lottery Commission** reported that total ticket sales in April were \$131.4 million. This amount is \$10.7 million, or 8.8% greater than in April 2023.

Highway User Revenue Fund (HURF) collections of \$158.3 million in April were (5.3)% below the amount collected in April 2023 and \$(14.7) million below forecast. Year to date, HURF collections are \$1.47 billion, 2.1% above the prior year and \$(18.8) million below forecast.

The state collected \$15.2 million in dedicated **Marijuana Excise Taxes** in April, representing a (1.1)% decrease from April 2023 revenues. Monies from this excise tax are deposited into dedicated non-General Fund accounts. The total combined amount of Medical and Recreational state Transaction Privilege Tax (TPT) was \$5.6 million in April, of which amount the General Fund received \$4.1 million.

(Table 4 details April 2024 Marijuana tax collections).

	<u>April</u>	<u>YTD</u>
Marijuana Excise Tax	\$15.2	\$146.7
Medical Marijuana TPT*	\$1.2	\$13.8
<u>Distribution:</u>		
General Fund	\$0.9	\$10.2
Counties	\$0.2	\$2.2
Cities	\$0.1	\$1.4
Recreational Marijuana TPT*	\$4.4	\$43.3
<u>Distribution:</u>		
General Fund	\$3.3	\$32.0
Counties	\$0.7	\$7.0
Cities	\$0.4	\$4.3
Total State Marijuana Tax Collections	\$20.8	\$203.8

* Amounts may not add to total due to rounding



Table 5

General Fund Revenue: Change from Previous Year and Baseline Forecast April 2024

	Current Month					FY 2024 YTD (Ten Months)				
	Actual April 2024	Change From April 2023		Baseline Forecast		Actual April 2024	Change from April 2023		Baseline Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$697,601,676	(\$842,329)	(0.1) %	(\$12,035,720)	(1.7) %	\$6,594,154,749	\$192,919,360	3.0 %	\$5,678,057	0.1 %
Income - Individual	546,527,819	59,676,855	12.3	8,737,024	1.6	3,909,012,053	(554,911,334)	(12.4)	76,557,110	2.0
- Corporate	311,948,539	(30,073,535)	(8.8)	2,752,227	0.9	1,379,971,389	(110,925,976)	(7.4)	17,600,341	1.3
Property	1,500,287	466,934	45.2	605,239	67.6	20,283,666	2,578,335	14.6	1,033,085	5.4
Luxury - Tobacco	1,724,622	(118,379)	(6.4)	(145,274)	(7.8)	16,056,643	366,621	2.3	(62,701)	(0.4)
- Liquor	2,438,348	1,048,851	75.5	(748,377)	(23.5)	35,393,391	(145,940)	(0.4)	(1,729,682)	(4.7)
Insurance Premium	50,353,688	(6,090,780)	(10.8)	(10,124,478)	(16.7)	602,610,250	51,904,345	9.4	34,384,927	6.1
Other Taxes	1,727,850	(794,884)	(31.5)	(916,817)	(34.7)	15,273,556	(143,156)	(0.9)	(2,303,383)	(13.1)
Sub-Total Taxes	\$1,613,822,828	\$23,272,732	1.5 %	(\$11,876,176)	(0.7) %	\$12,572,755,699	(\$418,357,744)	(3.2) %	\$131,157,754	1.1 %
<u>Other Revenue</u>										
Lottery	15,490,000	0	--	0	--	222,285,158	46,473,185	26.4	0	0.0
Gaming	2,509,959	2,509,959	--	(721,436)	(22.3)	24,448,701	(13,474,159)	(35.5)	(2,082,790)	(7.9)
License, Fees and Permits	4,186,128	892,596	27.1	948,708	29.3	44,167,424	8,264,912	23.0	4,604,704	11.6
Interest	27,497,931	(7,818,369)	(22.1)	1,572,562	6.1	281,192,457	31,756,313	12.7	(14,070,609)	(4.8)
Sales and Services	2,754,556	(743,137)	(21.2)	(906,300)	(24.8)	25,749,933	(1,576,779)	(5.8)	(2,511,173)	(8.9)
Other Miscellaneous	948,352	(1,642,682)	(63.4)	(1,760,503)	(65.0)	21,103,042	7,268,593	52.5	(7,969,879)	(27.4)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	47,877,765	47,088,230	--	4,020,564	9.2	134,606,109	32,351,817	31.6	10,889,963	8.8
Sub-Total Other Revenue	\$101,264,691	\$40,286,597	66.1 %	\$3,153,595	3.2 %	\$753,552,825	\$111,063,881	17.3 %	(\$11,139,784)	(1.5) %
TOTAL BASE REVENUE	\$1,715,087,519	\$63,559,329	3.8 %	(\$8,722,581)	(0.5) %	\$13,326,308,524	(\$307,293,862)	(2.3) %	\$120,017,970	0.9 %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(130,401,650)	(38,155,093)	41.4	(0)	0.0	(1,304,016,495)	(381,550,932)	41.4	(0)	0.0
One-Time Transfers	0	0	--	0	--	0	(75,462,096)	--	0	--
Income Tax Rebate	(15,508)	(15,508)	--	(15,508)	--	(273,446,958)	(273,446,958)	--	(490,608)	0.2
Sub-Total Other Adjustments	(130,417,157)	(38,170,601)	41.4 %	(15,508)	0.0 %	(1,577,463,453)	(730,459,985)	86.2 %	(490,608)	0.0 %
TOTAL GENERAL FUND REVENUE	\$1,584,670,362	\$25,388,729	1.6 %	(\$8,738,088)	(0.5) %	\$11,748,845,071	(\$1,037,753,848)	(8.1) %	\$119,527,362	1.0 %
<u>Non-General Funds</u>										
Highway User Revenue Fund	158,287,143	(8,838,948)	(5.3) %	(14,658,736)	(8.5) %	1,470,648,327	30,909,114	2.1 %	(18,791,780)	(1.3) %

Monthly Indicators

NATIONAL

The Bureau of Economic Analysis' (BEA) advance estimate of U.S. **Real Gross Domestic Product (GDP)** in the 1st quarter of 2024 is a seasonally adjusted annual growth rate of 1.6%. Growth in consumer spending, fixed investment, and government spending contributed to the increase in GDP.

The **Consumer Confidence Index**, published by the Conference Board, fell to 97.0 in April, a (6.1) point decrease from the revised March level. This is the lowest level the index has been since July 2022. The primary reason for the April decline in confidence was a drop in future expectations. Respondents reported greater concern about inflation and job availability. While views on the present situation also grew worse during the month, they remain mostly positive. Year-over-year, the consumer confidence index has decreased (6.5)%.

The Conference Board's **U.S. Leading Economic Index (LEI)** decreased by (0.3) points to 102.4 in March. Deterioration in the interest rate spread, consumer expectations, and new manufacturing orders offset improved credit conditions and stock prices. According to the Conference Board's press release, "the Index points to a fragile – even if not recessionary – outlook for the U.S. economy". The LEI fell by (2.2)% over the 6-month period between September 2023 and March 2024, a slower rate of decrease from the (3.4)% decline over the prior 6-month period.

The U.S. Bureau of Labor Statistics' **Consumer Price Index (CPI)** increased in April at a seasonally adjusted rate of 0.3% over the previous month. Compared to the same month last year, consumer prices are up by 3.4% before seasonal adjustment. The increase was driven primarily by higher shelter and gasoline prices. The Core CPI, which excludes food and energy, is up by 3.6% from a year ago.

ARIZONA

Housing

In March, Arizona reached a 12-month total of 39,013 **single-family building permits** issued. This marks an increase of 2.4% above February's rolling total and an increase of 27.7% over March 2023's 12-month total.

Arizona's 12-month total of 21,109 **multi-family building permits** in March is (9.0)% below February's total and (15.1)% below the same 12-month period ending in March 2023.

The **median home price** in Maricopa County rose again to \$490,000 in April, representing a 2.3% increase over the prior month's median sale price and a 7.6% increase over the median home price in April 2023.

Tourism

Phoenix Sky Harbor Airport Ridership rose to 5.1 million in March, which is typically the busiest month of the year for the airport, marking a 22.9% increase over February's figure and a 9.7% increase over last year's ridership. This is the first month on record that Sky Harbor ridership has exceeded 5 million passengers.

Hotel occupancy was 76.6% in March, which is 4.6% higher than February's occupancy rate and (2.7)% lower than that of March 2023.

Employment

According to the latest employment report released by the Arizona Office of Economic Opportunity (OEO), the state gained 12,900 **nonfarm jobs** in April compared to March. Prior to the pandemic, nonfarm employment recorded an average net gain of 9,500 jobs in April (2010-2019). Compared to a year prior, the state added 64,600 jobs in April, an increase of 2.0%.

The state's seasonally adjusted **unemployment rate** decreased from 3.8% in March to 3.6% in April. This was the 4th consecutive month-over-month decline of the state's jobless rate. The U.S. seasonally adjusted unemployment rate increased to 3.9% in April from 3.8% in March. This was the first month since April 2022 that Arizona's jobless rate was lower than the nation as a whole.

OEO reported that a total of 4,656 **initial claims for unemployment insurance** were filed in Arizona in the week ending on April 27th. This represents a (1.3)% year-over-year decline in initial claims, with the week ending April 29, 2023 seeing 4,716 initial claims.

According to OEO, there were a total of 24,981 **continued claims for unemployment insurance** in Arizona for the week ending on April 20th. This is 6.9% greater than last year's total of 23,369 on the comparable date. Prior to the start of the pandemic, the average number of weekly continued claims was 22,613.



State Agency Data

As of May 1, 2024, the total **AHCCCS caseload** was 2.14 million members. Total monthly enrollment increased 0.1% from April and decreased (11.1)% compared to a year ago.

Parent and child enrollment in the Traditional population increased by 0.2% in May, or (11.4)% lower than a year ago. Other Acute Care enrollment, including Prop 204 Childless Adults, Other Prop 204, Adult Expansion, and KidsCare, was 977,265 – a decrease of (0.1)% from April, or (11.6)% lower than last year.

For May 2024, the Elderly, Physically Disabled and Developmental Disabilities Long-Term Care population increased by 0.2%. At 70,056, this population is 3.1% higher than a year ago.

Based on information the **Department of Child Safety** provided for March 2024, reports of child maltreatment totaled 43,564 over the last 12 months, a decrease of (6.5)% from the prior year.

There were 9,776 children in out-of-home care as of March 2024, or (14.1)% less than in March 2023. Compared to the prior month, the out-of-home children population remained relatively unchanged.

There were 10,770 individuals receiving **TANF** Cash Assistance in April 2024, representing a (3.6)% decrease from March 2024. Year over year, the number of cash benefit recipients has decreased by (3.7)%.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. There were 945,742 individuals receiving SNAP benefits in April 2024, representing a (0.7)% decrease from March 2024. Year over year, the number of SNAP recipients has increased by 3.8%.

The Arizona Department of Correction's **Inmate Population** was 34,956 as of April 30, 2024. This was a 0.5% increase since March 31, 2024 and a 2.6% increase since April 2024.



Table 6

MONTHLY INDICATORS				
Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
<u>Employment</u>				
- Seasonally Adjusted Unemployment Rate	April	3.6%	(0.2)%	0.0%
- Total Unemployment Rate (discouraged/underemployed)	1 st Q 2024	7.2%	(0.1)%	0.7%
- Initial Unemployment Insurance Claims	Week Ending April 27	4,656	(3.5)%	(1.3)%
- Continued Unemployment Insurance Claims	Week Ending April 20	24,981	5.9%	6.9%
- Non-Farm Employment - Total	April	3,265,100	0.4%	2.0%
Manufacturing	April	192,400	(0.2)%	(1.1)%
Construction	April	216,000	0.0%	2.8%
- Average Hourly Earnings, Private Sector	April	\$33.11	2.1%	2.9%
<u>Building</u>				
- Building Permits (12 month rolling sum)				
Single-family	March	39,013	2.4%	27.7%
Multi-family		21,109	(9.0)%	(15.1)%
- Maricopa County/Other, Single-Family Home Sales (ARMLS)	April	5,561	3.7%	4.7%
- Maricopa County/Other, Single-Family Median Home Price (ARMLS)	April	\$490,000	2.3%	7.6%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	March	5,064,407	22.9%	9.7%
- State Park Visitors	February	266,748	17.3%	10.0%
- Revenue Per Available Hotel Room	March	\$160.45	10.9%	(3.7)%
- Arizona Hotel Occupancy Rate	March	76.6%	4.6%	(2.7)%
<u>General Measures</u>				
- Arizona Personal Income, SAAR	4 th Q 2023	\$464.2 billion	4.0%	1.3%
- Arizona Population, U.S. Census	July 2023	7,431,344	N/A	0.9%
- State Debt Rating				
Standards & Poor's/Moody's Rating	May 2015/Nov 2019	AA / Aa1	N/A	N/A
Standards & Poor's/Moody's Outlook	May 2015/Nov 2019	Stable/Stable	N/A	N/A
<u>Agency Measures</u>				
- AHCCCS Recipients	May 1st	2,142,500	0.1%	(11.1)%
Traditional Acute Care		1,095,100	0.2%	(11.4)%
Other Acute Care		977,300	(0.1)%	(11.6)%
Long-Term Care – Elderly & DD		70,100	0.2%	3.1%
- Department of Child Safety (DCS)				
Reports of Child Maltreatment (12-month total)	March	43,564	(0.6)%	(6.5)%
DCS Out-of-Home Children	March	9,776	0.0%	(14.1)%
Filled Caseworkers (1,406 Budgeted)	March	1,291	(6)	(5)
- ADC Inmate Growth	April	34,956	0.5%	2.6%
- Department of Economic Security				
- TANF Cash Assistance Recipients	April	10,770	(3.6)%	(3.7)%
- SNAP (Food Stamps) Recipients	April	945,742	(0.7)%	3.8%
United States				
- Gross Domestic Product (Chained 2017 dollars, SAAR)	1 st Q, 2024 1 st Estimate)	\$22.8 trillion	1.6%	3.0%
- Consumer Confidence Index (1985 = 100)	April	97.0	(5.9)%	(6.5)%
- Leading Economic Index (2016 = 100)	March	102.4	(0.3)%	(5.5)%
- Consumer Price Index, (1982-84 = 100)	April	313.3	0.3%	3.4%



JLBC Meeting Summary

At its **May 1, 2024**, meeting, the Joint Legislative Budget Committee considered the following issues:

Executive Session

Attorney General – Consideration of Proposed Settlements Under Rule 14 – The Committee approved settlements under Rule 14, which requires Committee approval of Risk Management settlements above \$250,000 pursuant to A.R.S. § 41-621(N).

Consent Agenda

Arizona Department of Administration – Consider Approval of Requested Transfer of Appropriations – A.R.S. § 35-173 requires Committee approval of any transfer of spending authority within the Arizona Department of Administration. The Committee approved the agency's plan to transfer \$852,300 of Capital Outlay Stabilization Fund spending authority from the Utilities line item to the agency's operating budget in FY 2024.

Arizona Department of Administration/Automation Projects Fund – Review of Arizona Corporation Commission eCorp Replacement – A.R.S. § 41-714 requires Committee review prior to any monies being expended from the Automation Projects Fund (APF). The Committee gave a favorable review of the Arizona Department of Administration's plan to utilize \$4.5 million from its FY 2024 APF appropriation of \$7.0 million to replace and maintain the Corporation Commission's corporation registration software.

Summary of Recent Agency Reports

Arizona Department of Administration – Automation Projects Fund Quarterly Report and Third-Party Reports – Pursuant to an FY 2024 General Appropriation Act footnote, the Arizona Department of Administration (ADOA) provided its third quarterly update of FY 2024 on all current projects funded through the Automation Projects Fund (APF). ADOA evaluates the health of each project on a quarterly basis and labels each as on track, at risk, or off track. Of the 14 projects included in the report, ADOA has labeled 10 as on track, 2 not yet started, and 2 as off track. The 2 off track projects are:

AHCCCS – Review of Mid-Year Capitation Rate Changes for Plan Year 2024 – Pursuant to an FY 2024 General Appropriation Act footnote, the state Medicaid agencies must present their plans to the Committee for review prior to implementing any changes in capitation rates. The Committee gave a favorable review of AHCCCS's plan to decrease capitation rates by (0.2)% for the contract year ending this September (CYE 2024).

Arizona Criminal Justice Commission – Review of Edward Byrne Memorial Justice Assistance Grant Federal Application – A.R.S. § 41-2403 requires Committee review of the Arizona Criminal Justice Commission (ACJC) federal applications for the Edward Byrne Memorial Justice Assistance Grants (JAG) administered by the United States Department of Justice, Bureau of Justice Assistance. The Committee gave a favorable review of the ACJC's federal applications for FFY 2023 and FFY 2024 Edward Byrne Memorial JAG. As a part of the review, the Committee included a provision requiring ACJC to submit a preliminary proposal by May 15, 2025, if the federal guidelines have not yet been received for 2025.

Department of Economic Security – Review of FY 2023 Developmental Disabilities Line Item Transfers – Pursuant to a General Appropriation Act footnote, the Committee is required to review any funding being transferred in or out of the DDD Administration line and the Case Management lines. The Committee gave a favorable review of the department's plan for an FY 2023 transfer of \$250,000 from the Home and Community Based Services State-Only line item into the Case Management State-Only line item.

ADOA Human Resources Information System (HRIS) Replacement

The Arizona Strategic Enterprise Technology (ASET) Office continues to list the ADOA HRIS Replacement as off track. ASET has identified risks related to the project timeline, data conversion, and resource management, which is mirrored in the Independent Verification and Validation report. According to ASET, the HRIS team has failed to uphold sufficient progress reporting standards which has made it especially difficult to get the project back on track despite increased reporting requirements and project oversight.



Department of Water Resources (DWR) Application Modernization

Last quarter, ASET listed the DWR Application Modernization as being at risk. The project is now labelled off track. ASET attributes this change to the many risks faced by the project, including a vague scope and timeline, problematic contract terms, and poorly defined goals. ASET is working with DWR to resolve some of these issues, and DWR is expected to submit a change request to the Information Technology Authorization Committee (ITAC) in Q4 addressing ASET's concerns.

Status of ITAC Projects

In its report, ADOA continues to note that 1 non-APF project which was approved ITAC is on hold. ADOA's Enterprise Email project remains on hold due to schedule delays with the Department of Child Safety (DCS), the Department of Public Safety (DPS), the Arizona Health Care Cost Containment System (AHCCCS), and the Department of Revenue (DOR).

ADOA reported that 3 other non-APF projects are off track due to technical difficulties, poor project planning, or a lack of coordination between state agencies and private vendors. These projects are the State Parks Broadband (ADOA), the DCSS ATLAS Replacement (DES), and the Educator/Licensure Certification Replacement System (ADE). Three projects that were previously off track have been upgraded to at risk or on track: the DTS Zero Trust Access Model (DES), the Child Nutrition Program Web Replacement Project (ADE), and the AFIS 4.0 Upgrade (ADOA)

ITAC Third-Party Reports

Additionally, pursuant to A.R.S. § 18-104, any large-scale IT projects with a total cost greater than \$5.0 million must receive third-party analysis from an independent contracted vendor. The third-party vendor is required to review and provide guidance on the project and submit quarterly reports on project progress. Independent Verification and Validation (IVV) reports were submitted for the following: the HRIS Replacement (ADOA), the Medicaid Enterprise System (AHCCCS), the MEDSIS modernization (DHS), the DCSS ATLAS Replacement (DES), the Application Modernization project (DWR), the School Finance System Replacement (ADE), the DERS Unemployment Insurance Benefits Modernization (DES), and the Business One Stop project (ADOA). The reports provided commentary on project progress that generally matched that of the quarterly APF reports from ASET. (Destin Moss)

ADOA - School Facilities Division – Quarterly Report on Credit Enhancement Program – Pursuant to A.R.S. § 41-5858, the School Facilities Division (SFD) within the Arizona Department of Administration is required to submit quarterly reports on the Public School Credit Enhancement Program. The program is operated by the Governor's Office of Education. The total outstanding principal amount of guaranteed financings is \$339.5 million. To date, there are no guaranteed financings for which the program has been required to disperse funds. The Credit Enhancement Fund balance is \$114.5 million and has a leverage ratio of 2.97 (based only on the outstanding principal of guaranteed financings). The statutory limit for the program's leverage ratio is 3.5. (Gordon Robertson)

Arizona Health Care Cost Containment System – Report on the Comprehensive Health Plan (CHP) – Pursuant to Laws 2018, Chapter 152, the Arizona Health Care Cost Containment System (AHCCCS) is required to report semiannually on the financial and program accountability trends of CHP, the foster care medical program. AHCCCS's most recent report covers the first half of Federal Fiscal Year 2023 (October 1, 2022 through March 31, 2023). AHCCCS reported the following findings:

- The percentage of CHP children receiving behavioral health services in March 2023 was 67.4%.
- The services utilized by the highest percentage of CHP members using services in March 2023 included support services (92.7%), treatment services (48.9%), pharmacy (17.2%), and medical services (15.0%). Support services for foster children include case management, peer support, and transportation to appointments. Treatment services include individual and group counseling as well as behavioral health diagnostic evaluations.
- The services that accounted for the greatest share of CHP program costs in March 2023 included inpatient services (34%), support services (22%), and treatment services (16%). Inpatient services primarily consist of inpatient psychiatric services provided by hospitals. (Maggie Rocker)

AHCCCS, DES, & DCS – Report on Preliminary Actuarial Estimates for CYE 2025 Capitation Rate Changes – Pursuant to an FY 2024 General Appropriation Act footnote, the Arizona Health Care Cost Containment System (AHCCCS) submitted a report on preliminary Medicaid capitation rate increases for contract year (CYE) 2025. Their submission includes information for AHCCCS, the Department of Economic Security (DES), and the Department of Child Safety (DCS).



Overall, AHCCCS anticipates a weighted average capitation rate increase of 2.5% to 4.5% in CYE 2025. The 4.5% figure represents the projected national growth rate in Medicaid spending in 2025 from the Centers for Medicare and Medicaid Services Office of the Actuary, adjusted for AHCCCS cost trends. The midpoint of the range, 3.5%, is slightly lower than the JLBC Staff's FY 2025 estimate of 4.0%. Potential factors that may influence capitation rate growth in CYE 2025 include:

- Changes in cost per enrollee as a result of provider rate increases, inflation, and a shift in utilization toward more costly services.
- Changes in utilization as a result of pandemic enrollment. While total membership has declined due to AHCCCS resuming eligibility redeterminations for the first time since the start of the pandemic, members remaining in the program are expected to represent a higher cost due to higher utilization of services. The CYE 2025 capitation rates are expected to annualize the adjustment included in the CYE 2024 rates.
- Rate increases for home and community-based services for Proposition 206 and Proposition 414 (Flagstaff) minimum wage requirements. Tucson's minimum wage is scheduled to increase from \$14.35 to \$15.00 in January 2025 while Flagstaff's minimum wage annually increases based on the consumer price index.
- Increases in pharmacy costs due to pharmaceutical pricing and utilization. (Chandler Coiner)

Arizona Commerce Authority – Annual Report on the Healthy Forest Enterprise Incentives Program – Pursuant to A.R.S. § 41-1516I, the Arizona Commerce Authority provided its annual May 1 report on the Healthy Forest Enterprise Incentives Program regarding the quantity and measured weight of qualifying forest products.

In calendar year 2023 the total weight of qualified harvested, processed, or transported forest products was 950,217 tons compared to 663,475 tons in 2022.

The Healthy Forest Enterprise Incentives Program allows businesses primarily engaged in the harvesting, initial processing, or transporting of forest products in Arizona to qualify for a tax credit of \$10,000 for the first 20,000 tons they harvest, process, or transport in a tax year and an additional \$5,000 for every 10,000 tons thereafter. In each tax year, the credits may not exceed \$500,000 per taxpayer or \$2,000,000 in aggregate. In addition to the production tax credit, business may qualify for: a use and transaction privilege tax exemption on qualified purchases, a 50% reduction in the use fuel tax and a reduction in the assessment ratio of personal and real property from 18.5% to 5%. (Nate Belcher)

Department of Economic Security – Report on Child Support Administration Fund Escalator – Pursuant to an FY 2024 General Appropriation Act footnote, the Department of Economic Security (DES) reported its plan to expend an additional \$10.2 million of Child Support Administration Fund monies received by the department in excess of its \$17.7 million appropriation for FY 2024. The department plans to use the amount, along with \$19.8 million in related Expenditure Authority, to complete its project to replace the Arizona Tracking and Location Automated System (ATLAS). The case management system collects and distributes child support payments. DES reports that the new, web-based system will automate workflows and improve efficiency. The department expects the new system to go live in May 2024. (Chandler Coiner)

